

4:1 - Gains from Trade

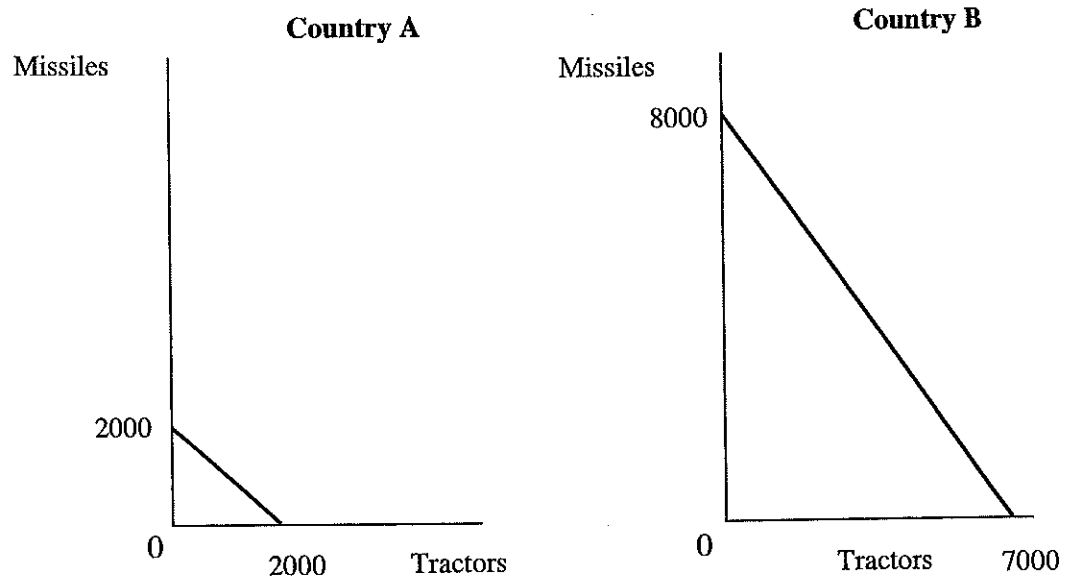
1. Which of the following is a valid economic reason for international trade between countries?
- I. The theory of comparative advantage.
 - II. The existence of economies of scale.
 - III. Increased competition between producers.
- A. I only B. I and II only C. II and III only D. I, II and III
2. Which of the following is a valid reason for justifying international trade?
- I. Spread of the best technology.
 - II. Increased consumer choice.
 - III. Infant industry argument.
- A. I only B. I and II only C. II and III only D. I, II and III
3. Two friends, Ada and Lola, start a small business partnership manufacturing camping equipment. They each spend half of their time producing tents and sleeping bags. The table shows their monthly output.

	Tents	Sleeping bags
Ada	8	4
Lola	5	5

They then decide to specialize and produce just one good each. What will be their total monthly output of each product?

	Tents	Sleeping bags
A.	12	10
B.	10	8
C.	13	9
D.	16	10

4. The diagrams below indicate the production possibility frontiers for two countries, A and B.

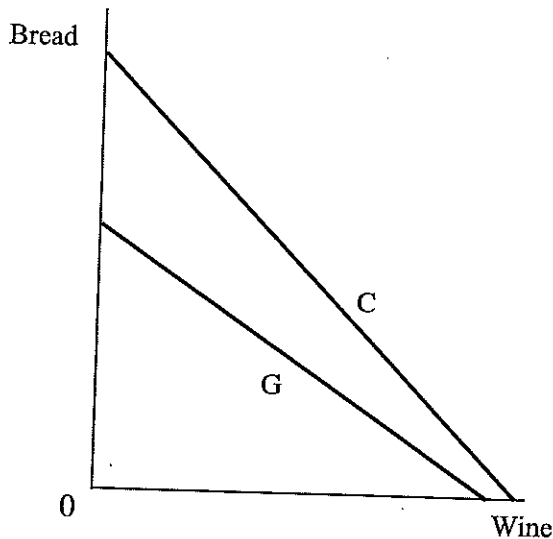


From the diagrams it can be concluded that country A has

- A. a comparative advantage in both lines of production, and so will not trade.
- B. a comparative advantage in the production of tractors only.
- C. an absolute advantage in the production of both products.
- D. a comparative advantage in the production of missiles.

© IBO [May 1999]

5. In this diagram, C represents the production possibility frontier of Catalonia, and G represents the production possibility frontier of Galicia.



The law of comparative advantage suggests that

- A. Galicia will export wine, and import bread.
- B. Galicia will export wine, but will not import bread.
- C. Catalonia will export wine, and import bread.
- D. Catalonia will export wine, but will not import bread.

© IBO [May 1999]

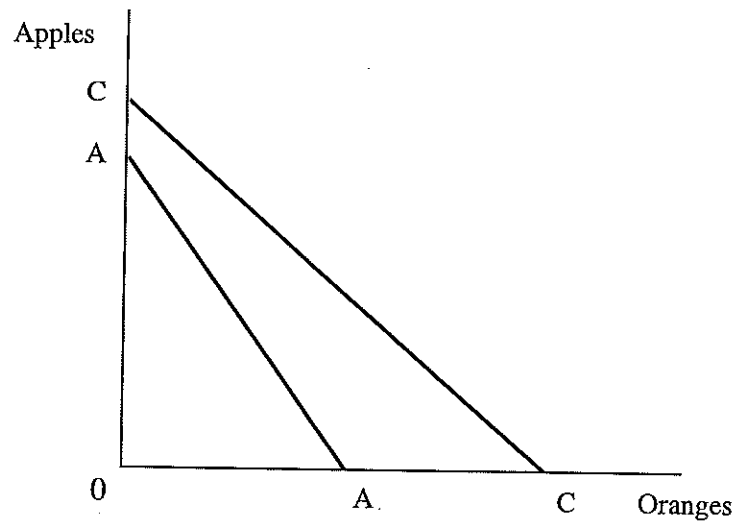
6. The following quantities represents the output of a day's work in each country.

	Computers	Cars
Japan	30	20
USA	20	10

Which **one** of the following statements can be deduced from the table?

- A. Trade is to the advantage of neither Japan nor the USA.
- B. The productivity of labour is higher than in the USA.
- C. Japan has a comparative advantage in cars.
- D. The USA has absolute advantage in both computers and cars.

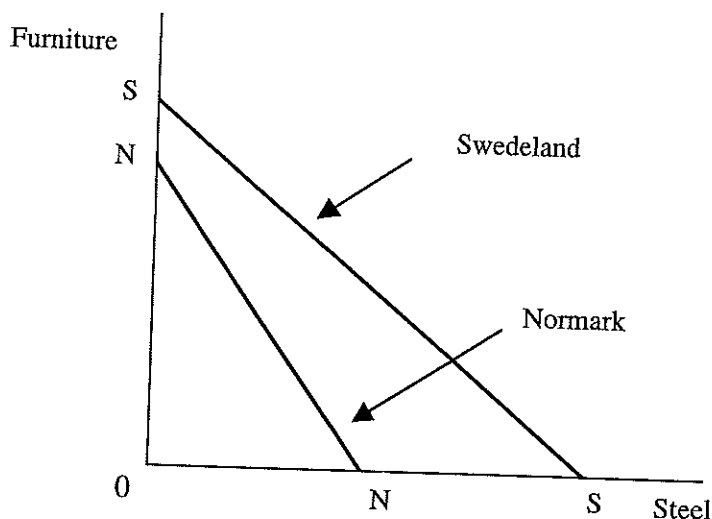
7. In the diagram below, CC represents the production possibility frontier for Chile, and AA represents the production possibility frontier of Argentina.



According to international trade theory this diagram shows that

- A. Argentina has an absolute advantage in both goods.
- B. identical opportunity cost ratios mean that there would be no gains from trade.
- C. Argentina should import oranges.
- D. Chile should specialise in the output of apples.

8. In the diagram below SS is the production possibility frontier of one country, Swedeland, and NN is the production possibility frontier for another, Normark.

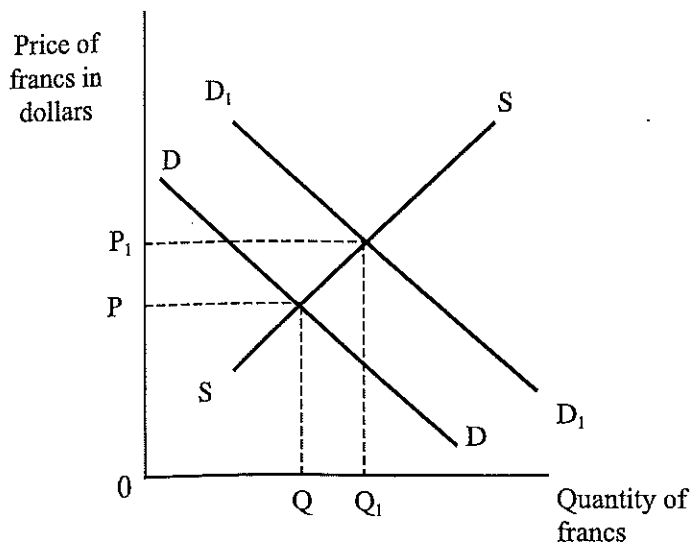


According to international trade theory

- A. Normark has an absolute advantage in both furniture and steel.
 - B. Normark should export furniture.
 - C. Swedeland should export furniture.
 - D. no trade should take place.
9. Country A has a comparative advantage in producing coal and country B in producing cement. However, a valid reason for not trading coal for cement would be that
- A. transport costs are high relative to the opportunity cost differences between the countries.
 - B. there is immobility of factors of production between the two countries.
 - C. trade is based on absolute rather than comparative advantage.
 - D. the exchange rate lies within the opportunity cost ratios of the two countries.

4.4 - Exchange Rates

1. The diagram below indicates the demand for and supply of francs in international money markets.

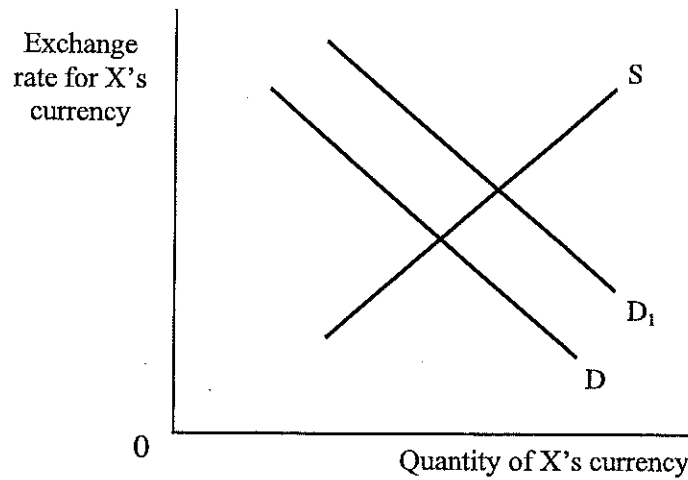


The increase in the price of francs in terms of dollars is most likely to have been caused by an increase in

- A. French interest rates relative to those in the USA.
- B. the price elasticity of demand for imports into France.
- C. the demand by France for goods from the USA.
- D. capital outflows from France.

© IBO [November 1999]

2. The diagram below shows the demand for and supply of the currency of Country X in international money markets.

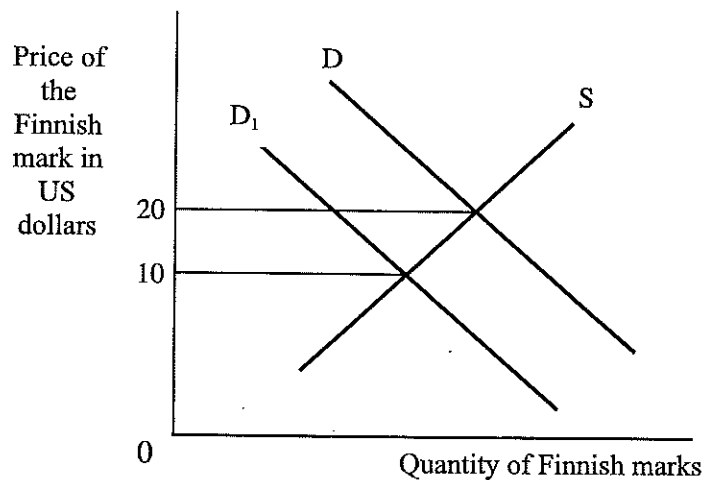


Other things being equal, a shift from D to D₁ would be the result of

- A. a deficit in the current account of the balance of payments of Country X.
- B. an increase in Country X's inflation.
- C. an inflow of foreign investment into Country X.
- D. a reduction in Country X's interest rates.

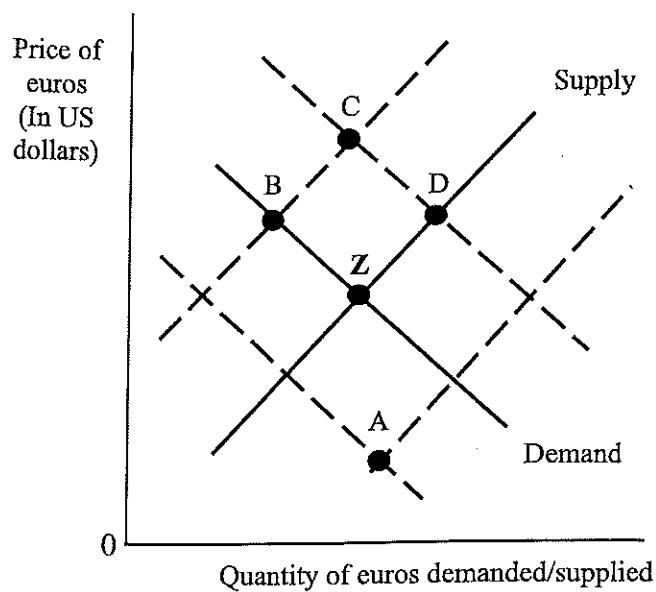
© IBO [May 2000]

3. The diagram shows the market for the Finnish mark.



- A fall in the exchange rate from \$20 to \$10 could have been caused by
- A. lower interest rates in Finland.
 - B. lower prices in Finland.
 - C. less Finnish tourists travelling to the USA.
 - D. reduced imports of American products into Finland.
4. Which of the following is most likely to increase the international demand for a country's currency?
- A. Greater price competitiveness of the country in international markets.
 - B. A fall in domestic interest rates.
 - C. An increase in the country's rate of inflation.
 - D. An increase in the productivity of workers in neighbouring countries.

5. Other things being equal, which of the following would be most likely to decrease the price of the euro in terms of the Japanese yen?
- A. Interest rates rise in Europe.
 - B. The European Union imposes tariffs on Japanese goods.
 - C. The European inflation rate is higher than the Japanese inflation rate.
 - D. The number of Japanese tourists visiting Europe increases.
6. The diagram shows the demand and supply of the euro. The initial point of equilibrium is at Z. If there is an increase in American investment in Europe what will be the new point of equilibrium immediately following the investment?



- A. A B. B C. C D. D

19. Increased borrowing by the government results in the private sector being able to borrow less. This would be an example of

- A. diminishing credit worthiness.
- B. the multiplier effect.
- C. crowding out.
- D. fiscal drag.

© IBO [May 1999]

20. In Country A on an income of \$10,000 would be taxed at \$1000. Compared to this which of the following indicates that the income tax rates are progressive?

- A. \$2000 tax on \$20,000 income.
- B. \$2500 tax on \$30,000 income.
- C. \$4500 tax on \$40,000 income.
- D. \$4800 tax on \$50,000 income.

21. Which of the following forms of taxation is likely to be the most regressive?

- A. a tax on alcohol.
- B. a tax on air travel.
- C. a progressive income tax.
- D. a proportional income tax.

22. The 'marginal rate of tax' is

- A. the rate of tax paid on unearned income.
- B. the rate of tax paid on a small change in income.
- C. the proportion of income which is paid in tax.
- D. the rate of tax on imports.

23. An income tax is considered regressive if, as income rises
- A. the marginal rate of tax is constant.
 - B. the marginal rate of tax rises.
 - C. the marginal rate of tax falls.
 - D. the average rate of tax rises.
24. The wage of a student with a part-time job increases from \$320 to \$360 a month. Her net monthly income after tax rises from \$230 to \$260 a month. Other things being equal what is the marginal rate of tax on her income?
- A. 15 per cent. B. 25 per cent. C. 36 per cent. D. 75 per cent.

25. The table shows the approximate tax payable on two levels of income in different countries in 1996.

Country	Tax payable on	
	Income of \$100 000	Income of \$200 000
Australia	\$37 000	\$85 000
Indonesia	\$23 000	\$53 000
Malaysia	\$20 000	\$48 000
Taiwan	\$11 000	\$39 000

Which country has the most progressive direct tax ?

- A. Australia B. Indonesia C. Malaysia D. Taiwan
26. Which of the following best describes a regressive tax?
- A. It takes a lower proportion from low incomes.
 - B. It takes a higher proportion from low incomes.
 - C. It takes a higher proportion from high incomes.
 - D. It is paid by a higher proportion of low income earners.